



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Port of Brownsville

For the investigation period January 1, 2016 through March 31, 2020

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**Office of the Washington State Auditor
Pat McCarthy**

January 13, 2021

Board of Commissioners
Port of Brownsville
Bremerton, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Port of Brownsville. On August 15, 2019, the Port notified the Office of the Washington State Auditor of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

Our investigation was performed under the authority of state law (RCW 43.09.260) and included procedures we considered necessary under the circumstances.

If you are a member of the media and have questions about this report, please contact Director of Communications Kathleen Cooper at (564) 999-0800. Otherwise, please contact Special Investigations Program Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy

State Auditor

Olympia, WA

cc: Shaun Nye, Commissioner

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FRAUD INVESTIGATION REPORT

Background and Investigation Results

The longtime Port Manager retired in 2017 and a Port employee was appointed as the interim Port Manager in late 2017. The interim Port Manager became the full-time Port Manager in 2018, and served through August 2019 when he was placed on administrative leave.

Credit cards

On August 14, 2019, the Port became aware that the Port Manager was spending Port funds for personal use and placed the Manager on administrative leave. The next day, August 15, 2019, the Port notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185).

The Port opened an investigation and determined a misappropriation totaling \$945.33 occurred between February 2018 and June 2019.

We reviewed the Port's investigation and agree with its conclusions. The investigation found that the Port Manager made four personal purchases totaling \$945.33 using a Port credit card. As of the date of this report, \$81.70 of the misappropriation amount has been repaid to the Port.

On October 21, 2019, the Port interviewed the Port Manager, who said it was not his intention to use the Port's credit card for personal purchases. He said he used his personal account with an online retailer to order items for business use and simply failed to switch the payment method.

Trailer

In April 2016, the now-retired Port Manager reported to the Kitsap County Sheriff's Office that the personal trailer of a Port employee, who later became the Port Manager, had been stolen from Port property. The trailer was being used for Port business at the time, though the nature of that business is unknown due to a lack of rental agreement or other documentation. As part of the loss report to the Sheriff's Office, the Port employee signed a statement agreeing: "If I regain possession of this vehicle, I understand that I must notify the Kitsap County Sheriff's Office immediately of the recovery."

Three months later, in July 2016, the Port Commission authorized spending \$4,437.11 on a new trailer to give to the Port employee. The Port did not file an insurance claim related to the theft until April 2017.

Three years later, in March 2020 and during the course of our regular audit work, we asked about this purchase of the new trailer for an employee's personal use. This inquiry prompted the Port to look into the lost trailer further, where it learned the old trailer had, in fact, been located and had a new owner. The Kitsap County Sheriff's Office verified that the Port Manager – previously the port employee that owned the stolen trailer – sold the trailer for \$1,500 sometime in 2018. This

happened after the Port had purchased a new trailer to replace the personal trailer and filed an insurance claim for reimbursement.

The Port Manager never notified the Port or the Sheriff's Office that the trailer had been located and that he subsequently sold it. He did not give the new trailer back to the Port after regaining possession of the original trailer, and did not otherwise reimburse the Port.

The Port gave us a summary of recent information learned through coordination with the Sheriff's Office, which we reviewed. During our regularly scheduled accountability audit, covering fiscal years 2017 through 2019, we examined other areas the Port Manager had access to, and considered whether any additional misappropriations occurred. Due to the Port's lack of internal controls over cash receipting, small and attractive assets, and disbursements, we could not determine if additional misappropriation occurred.

On March 14, 2020 the Port terminated the Port Manager's employment. On April 2, 2020, the Port mailed a restitution letter proposal without obtaining approval from the State Auditor or Attorney General, to the Port Manager, to address both the improper use of the Port's credit card and the trailer situation. The Port proposed deducting the remaining outstanding amount of personal credit card charges of \$863.63 and \$4,437.11 related to the new trailer purchase from the Port Manager's accrued vacation balance. However, the Port Manager declined the agreement.

Control Weaknesses

Internal controls at the Port were not adequate to safeguard public resources. The Port's investigation found the following weaknesses allowed the misappropriation to occur:

- Internal controls designed to monitor Port expenditures were not adequate because there was not a thorough review of credit card statements and disbursement vouchers to ensure purchases were in support of Port activity.
- The Port did not have a written rental agreement for using employees' personal equipment for Port business to outline required insurance coverage and liability.

Recommendations

We recommend the Port implement a process for a thorough review of all expenditures before payment, as well as using rental agreements when the Port is using non-Port property, to ensure adequate oversight and monitoring to safeguard public resources.

We will refer this case to the Kitsap County Prosecuting Attorney's Office for any further action it determines is necessary.

We further recommend the Port seek recovery of the misappropriated \$5,300.74 and related investigation costs of \$7,770 from the former Port Manager and/or its insurance bonding company, as appropriate.

We also recommend the Port comply with state law (RCW 43.09.260), which requires that the Attorney General and State Auditor approve, in writing, any compromise or settlements made by the Port. Assistant Attorney General Matt Kernutt is the contact person for the Attorney General's Office and can be reached at (360) 586-0740 or matthew.kernutt@atg.wa.gov. The contact for the Office of the Washington State Auditor is Brandi Pritchard, Assistant Director of Local Audit and Special Investigations, who can be reached at (360) 489-4591 or Brandi.Pritchard@sao.wa.gov.

Port's Response

The Port of Brownsville would like to thank the Washington State Auditor's Office for its investigation period of January 1, 2016 through March 31, 2020 of the potential loss of public funds.

On August 14, 2019, the Port Commission was notified about a potential loss of public funds and immediately placed a Port employee on administrative leave, pending investigation. On August 15, 2019, the Port Commission notified the Washington State Auditor's Office of the potential loss.

The Port Commission and Port staff has devoted significant time and effort to work with the Washington State Auditor's Office in reviewing various transactions involved in the investigation. The Port Commission and Port staff has devoted extensive time and effort to address the areas identified, review and update its policies and procedures and is committed to continue to review and update its policies and procedures in accordance with the BARS manual on a go-forward basis to safeguard public resources.

The Port Commission forwarded the discovered information pertaining to the employee's potential use of Port funds for personal use along with the recovery and subsequent sale of the stolen trailer to the local authorities for investigation. The Port Commission forwarded the additional information discovered by the local authorities regarding the recovery of the stolen trailer to the Washington State Auditor's Office. The Port terminated the employment of the employee placed on administrative leave, pending investigation on March 14, 2020.

The Washington State Auditor's Office has completed its investigation, identifying two control weaknesses and has made recommendations to ensure adequate oversight and monitoring to safeguard public resources.

The Port Commission agrees with the results of the investigation.

The Port Commission is committed to strengthening its internal controls over financial operations and assets to avoid the risk of misappropriation to ensure compliance with state and local policies. The Port has used this investigation process to assist them in identifying the areas that the Port needs to develop additional resources to be in compliance including attendance at multiple finance presentations, ongoing review of the BARS manual, hiring new CPA and legal firms with state-wide Port expertise and to develop additional internal procedures to govern all such activities.

The Port appreciates the State Auditor Office's investigation and to help the Port to improve its compliance with the state and local policies.

Auditor's Remarks

We thank Port officials and personnel for their assistance and cooperation during the investigation. We will follow-up on the Port's internal controls during our next regular audit.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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